together.
planning

FINANCIAL PLANNING | INVESTMENT MANAGEMENT

When it comes to your financial well-being, we're in this together.

The financial life of an attorney can take many paths over time. You may change firms, become a partner, open your own firm, or go in-house. And one day you will retire. Those are the expected changes, but there are plenty of unexpected changes that will happen, too. No matter how your career and your life change, one thing should remain constant: having a financial plan that will keep you on track to meet your goals, and an adviser that is held to the highest fiduciary standard of care.

Together Planning specializes in helping lawyers make the most of their assets at every stage of their career. We don't do this by selling you products, but by looking after your best interests and helping you make the best financial decisions. Many of our clients are lawyers, who appreciate our straightforward advice and our transparent way of conducting business. How will we help you prepare for changing situations while keeping you on track to meet your financial goals?

Let's look at some typical scenarios...

Meet our Lawyers: Anna, Brian, and Alex

Anna, Brian and Alex graduated from law school together and each had a job waiting at established firms. They eagerly began their jobs and settled into the rhythms of life as young associates. They were pleased with their salaries. They found that after paying rent, school loans, and a car payment, there wasn't always a lot of money left over, but it was blissfully more than they had as law students.

As each of these young professionals met their spouse, settled down, and began to think about starting a family, they had questions about how to prioritize their savings: into an emergency fund, repaying loans, buying a house, or other options.

Choices you make early on in your career will have an impact on your financial picture. Developing good financial habits and beginning your savings early are important steps to take on the path to financial freedom.

Challenges and Opportunities

- High expenses relative to income
- Law school debt
- Combining incomes when you get married
- Determining what you can or cannot afford

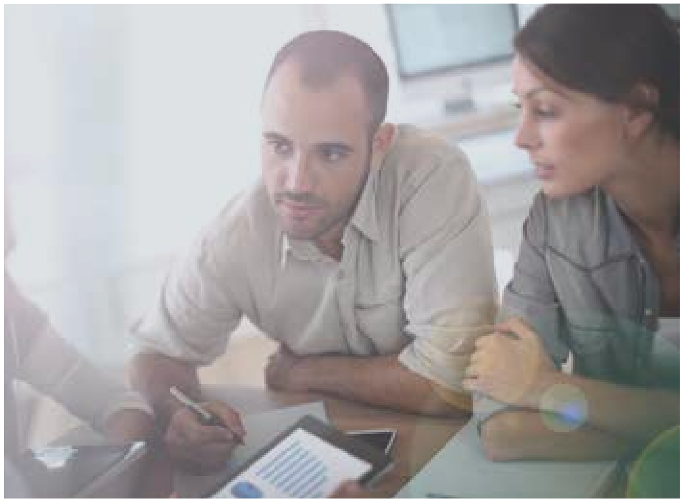
Solutions

- Learn to manage a budget
- Put savings on auto-pilot
- Pay off school loans
- Build an emergency fund of 6-12 months of expenses
- Start saving for retirement, maximizing employer match in a 401(k), and beginning compounding early
- Develop a financial plan to allocate your income most efficiently between savings, spending, and debt repayment
- Begin to plan for capital requirements for firm partnership or establishing your own firm

Senior Associate Phase

All three of our attorneys changed firms within the first five years, for various reasons. Anna and Alex each got married during that time frame, and Alex and his wife welcomed their first baby after about six years of practicing law. They have heard that college costs are increasing at a rapid rate and that they should already be saving for college. That pressure, combined with child care expenses, and the knowledge that he would be up for partner in the next two or three years, led to some feelings of stress. In addition, they felt the responsibility of parenthood weighing heavily and wondered if it was the right time to buy life insurance and have a will prepared.

At this stage, your responsibilities and your priorities are growing. It will become more important to develop a formal plan to be sure that your financial risks are minimized and your opportunities for growth are maximized.



Challenges and Opportunities

- Need a formal financial plan
- Moving a 401(k) when changing jobs
- Invest in a tax-efficient portfolio
- Saving for retirement
- Saving for education
- Protecting against risks
- Knowing how much life and disability insurance you really need

Solutions

- Work with an adviser to establish a tax-efficient investment strategy
- Roll 401(k) from previous employer into an IRA with more investment options
- Consult with your adviser on the best mix of savings vehicles for your goals
- Invest in a 529 college savings plan for children
- Establish an estate plan to protect assets and ensure proper guardianship for your children
- Work with a fee-only adviser who is not there to sell you a product or a policy, but to figure out your true needs

Pivotal Career Choices

In their eighth year at their firms, our three attorneys were up for partner. Each of them weighs the different paths that are before them and consider carefully how to move forward with their careers. Their choices here will have a significant financial impact on their future.

We will consider three different paths:

1. Anna stays with the firm and becomes a partner.
2. Brian starts a small firm with two partners.
3. Alex takes an in-house counsel position.

Making Partner

Anna

Anna stays with the firm and becomes an income partner in the same year that her second child is born. Her take-home pay is a little lower for the first few years of her partnership. She must pay down her buy-in cost, she has a much higher cost of health insurance now that the firm does not subsidize it, and she is now responsible for both the employer and employee portion of her 401(k) contributions.

Making partner is a milestone that is worth celebrating! The first few years will require careful planning to navigate the changes. After that, your income will begin to increase, and you will need to focus on your priorities for the future: your retirement and your children's education.

Brian

Brian decides to leave the firm and start a new firm with two other attorneys from his practice group. They have a few clients who will follow them to the new practice, but they will need to find more. He and his partners worked out of their homes at first and did their own paralegal and administrative work until they had more revenue. Brian was surprised by how much time he had to spend on non-legal tasks like software selection and set-up, marketing, hiring, and paying bills.

Brian and his new wife had to make some adjustments to their financial plan for him to be able to make this move. They needed to re-evaluate their health insurance options through her work and reduce both their monthly budget and their planned annual savings. They hoped the changes would be temporary, but if not, Brian was happy with his decision.

Starting your own firm gives you more control over your work and frees you up from some of the obligations that large firms carry with them. The trade-off for that flexibility is more variability in income and less stability, especially in the first few years. Careful planning can ensure that you stay on track with your long-term goals while making the transition.

Challenges and Opportunities

- Transitioning from employee to partner or sole practitioner
- Planning for reduced take-home pay in the first years of partnership or solo practice and more variable income going forward
- Making quarterly estimated tax payments instead of having taxes withheld
- Managing investment balances, which demand more careful attention as they grow
- Rolling a previous 401(k) into an IRA with more flexible investment options
- Prioritizing savings goals: emergency fund, retirement, children's educations

Solutions

- Partner with a financial adviser to determine sources of available cash and to fine-tune your financial plan, asset allocation, and investment strategy, optimizing for tax efficiency
- Work with a CPA to estimate/adjust quarterly tax payments
- Establish a detailed budget to manage the timing of cash flow
- Develop a plan for allocating a portion of revenue to retirement and education savings
- Roll over previous 401(k) to an IRA with more flexible investment options and hire an adviser to manage it
- Establish insurance plans to protect against major risks
- Make consistent contributions to your retirement account
- Open a taxable investment account to save additional cash flow beyond what goes into your 401(k)
- Update estate plan

Meet Amy

Amy worked in the corporate world and earned an MBA before starting law school in her late 30's. She joined a large law firm after graduation and turned 40 in her first year there. As she had used all her savings, including her 401(k) from her corporate job to attend law school, she had some catching up to do. Amy worked with an adviser to determine the amount that she would need to save each year to be able to afford to retire while still in her sixties. She maximizes her 401(k) through the firm and makes regular contributions to a taxable account. According to her adviser, her likelihood of success in meeting her financial goals, including a timely retirement, is over 90%.

Going In-House

Alex

Alex leaves the law firm for an in-house counsel position. He likes the culture of his new company and enjoys working closely with people in finance, human resources, and other disciplines. His salary is lower than his 8th-year associate salary, but the health and other insurance benefits are excellent, and the hours are more humane. He is home for dinner every night and can work from home a couple of days per month.

Taking an in-house counsel job can be appealing for many reasons. A financial plan can help clarify the impact of changes in compensation and benefits and can help you determine what salary you will need to earn to stay on track to meet your goals.

Challenges and opportunities:

- Balancing a potentially lower, but more predictable, salary
- Selecting from a generally large menu of employee benefits
- Managing investment balances, which demand more careful attention as they grow
- Rolling a previous 401(k) into an IRA with more flexible investment options
- Prioritizing savings goals: emergency fund, retirement, children's educations

Solutions:

- Partner with a financial adviser to determine sources of available cash and to fine-tune your financial plan, asset allocation, and investment strategy, optimizing for tax efficiency
- Roll over the law firm 401(k) to an IRA with more flexible investment options and hire an adviser to manage it
- Choose the employee benefits that will help you meet your goals in an efficient manner
- Establish insurance plans
- Make consistent contributions to your retirement vehicles
- Open a taxable investment account to save additional cash flow beyond what goes into the 401(k)s
- Update estate plan

Meet Rebecca

Rebecca joined a boutique litigation firm after completing a clerkship for a federal judge. Her associate salary was very competitive with that of her friends at larger firms, but her transition to partnership was more dramatic. Her firm pays nothing to the partners each year until it has reached a base line of income, and then pays the draw in tiers. She opened a line of credit at her bank to help manage the cash flow and she managed the debt very responsibly. Her discipline paid off, and in her ninth year as a partner she won a "windfall" case. Flush with cash for the first time, she hired an adviser to help her make the best use of the funds: catching up on retirement and emergency fund saving and opening a taxable investment account. She feels peace of mind knowing that her money is invested well, and she is on her way to making work optional.

Meet Robert

Robert is a partner at a large law firm. He has worked with the same firm since he graduated law school 16 years ago. Work-life balance is very important to him, and there is nothing he enjoys more than spending time with his family. He considered several career change options that he thought might require fewer hours: a smaller firm in a smaller town, working in-house for a corporation, or working for the government. After reviewing the possibilities and their financial consequences with his adviser, he decided to stay with his firm but reduce his commitment to 80%. He now spends Fridays at home, and they still have enough income to support their lifestyle and their savings needs.

Mid-Career

Anna

Ten years later, Anna is a successful equity partner at the firm. Her income grows predictably from year to year, as she has always met her targets for billable hours and collections. She earns a bonus most years as well. Her firm has started to contribute to an Equity Partner Retirement Plan on her behalf, which will provide her with income in retirement. In addition, she and her husband contribute the maximum to their 401(k)s and fund a taxable investment account with their bonuses and excess cash flow.

Brian

Brian and his partners were successful at building their small firm. They added one more partner a few years into the practice, and they now have two paralegals, an administrative assistant, and an office manager. Brian enjoys his work, particularly the way it has allowed him to get involved with his community. His income is steady now, and his job satisfaction is high. He can see himself continuing to work for a long time. He knows they will need to bring in associates and develop a succession plan for the firm if they want to eventually retire. He has not saved as much over the years into traditional savings vehicles, but he believes his firm is worth something, and he hopes to be able to monetize it.

Alex

As he progressed in his career track, Alex's compensation followed the path of other executives: his salary increased, he was eligible for bonuses based on company performance, and he was offered incentive stock options and a deferred compensation program in addition to the 401(k). He took on management responsibility and is now among the highest-ranking officers in the company. While he has a good head for finance, and understands financial concepts, he feels a bit overwhelmed at times by the decisions he must make with respect to getting the most out of his money. How much income should he defer? Should he retain the stock as his options vest, or sell? How much of his bonus should he save and how much can he use for travel and home improvements? At what age will he be able to comfortably retire?

At this point, you have paid down some debt, and your assets and financial opportunities are increasing. How can you make the most of those resources? How will you know when you have saved enough to let go of your job as your primary source of income?

Challenges and Opportunities

- Succession planning for a small firm
- Paying for college for children
- Saving excess cash flow once mortgage payments are gone and education is paid for
- Maximizing benefits and compensation packages
- Planning for parents' elder care
- Thinking ahead for the time when you may need help with financial or other decisions

Solutions

- For a small firm: establish a plan for bringing in associates who will one day buy out the partners
- Develop an optimal strategy for incentive stock options and salary deferrals
- Work with a CPA to improve tax efficiency and reduce tax burden
- Re-allocate your portfolio to lower risk assets as retirement approaches
- Create a financial caretaking plan and a proactive aging plan
- Reevaluate your insurance coverage
- Update estate plan

Meet Greg

Greg joined a large firm after law school, and then moved to two different firms in his first eight years. In his tenth year of practice, his firm let him know that they did not intend to make him a partner and that he should find another job. While he didn't know whether he would want to be a lawyer forever, this news was not welcome. He was not sure what he would want to do next or what type of job to seek. Having a financial plan allowed him to step back and think about what he really wanted out of life. He met with his adviser to determine how many months he could give himself to figure things out in between jobs; how to meet his income needs during the interim period; and what level of salary he wanted to seek in his next job. Knowing that he could be happy with a lower salary empowered him to try a new career that he hoped he would enjoy more.

Approaching Retirement

Anna

Anna's responsibilities at the firm now include managing her practice group in addition to serving clients. Her income is all variable now, with no fixed portion, but she hasn't had any "down" years. She is still enjoying her job, but she is hoping that working will become optional in the next ten years. She wants to have time to travel while she and her husband are still young, and they would consider moving to another city if their children settle somewhere else.

Brian

Brian's biggest challenge in thinking ahead to retirement is planning for the transition of his practice to a junior partner. He and his partners did hire a few associates several years ago, and they made them junior partners last year. They drafted a new partnership agreement to accommodate the changes and to establish the groundwork for the succession plan. His adviser helped him to quantify what his needs will be in retirement and identify all his resources so that he knows how much he will need to get for his ownership of the firm.

Alex

With the help of his adviser, Alex has made the most use of his corporate benefits over the years, and he has a high level of confidence in his ability to retire at age 65. As that time approaches, he begins to adjust his strategy in his investment accounts and develop a plan for the order in which he will draw from his retirement assets.

The years immediately before retirement are often some of the busiest in a professional life. Your responsibilities at work are many. While you probably look forward to enjoying every day like it is Saturday, it is natural to also feel nervous about what the change will mean for you emotionally and financially. Planning at this stage is the most critical.

Challenges and Opportunities

- For solo or small practices: planning to transition your practice to a younger partner
- Knowing when you can or will retire
- Determining how much income you will need in retirement (including health care costs)
- Deciding how to take the best advantage of compensation packages
- Adjusting investment strategies for changing time horizons and objectives
- Obtaining appropriate and cost-effective liability coverage
- Providing care for parents
- Planning for your own potential long-term care needs in the future
- Identifying when you may need help with financial or other decisions

Solutions

- For a small or solo practice: structure the sale of your partnership shares in a way that will provide the greatest benefit to you
- Identify sources of income in retirement, including a detailed plan for drawing income from investment assets
- Reevaluate your insurance coverage: have long-term care insurance in place or a plan to pay for care if not through insurance; if you plan to retire before Medicare eligibility, plan for that expense
- Re-allocate your portfolio to reduce volatility as retirement approaches
- Develop agreements with aging parents about when it will be time for them to no longer drive or live alone, and what will happen then; be prepared to help them financially if that becomes necessary
- Think about what you will do with your free time in retirement to feel connected and fulfilled
- Create a financial caretaking plan and a proactive aging plan so your children know your wishes in the case of incompetency
- Update estate plan

Meet Steven

Steven has worked for the federal government since graduating law school. His salary is lower than what it would be in the private sector, but his job security is very high, and his employee benefits are generous. After five years in the position, some of his school loans were forgiven. He will have a pension and health benefits in retirement, in addition to the savings that he and the government contribute to his Thrift Savings Plan. He works with his adviser to choose the best investments within his employer plan, and to set goals for emergency fund savings and education funding for his children. He appreciates having the global view of his investment picture and a clear roadmap to retirement with a high likelihood of success.

Enjoying Retirement

Anna as a retired law partner

Anna retired from her law firm after 37 years. Her husband continued working for 2 more years, which allowed them access to health insurance until they qualified for Medicare and helped them transition to their new life phase. Her firm's Equity Partner Retirement Plan will provide some income to her for the first ten years of retirement, delaying and reducing the amount that she needs to withdraw from her investment assets.

Brian sells his shares of the firm

Brian sold his shares in the firm the year he turned 67, and he continued to work part-time for the firm for three more years. Continued work allowed him to delay taking social security to maximize his benefits. He will also receive cash flow from the sale of his shares over a ten-year period, which significantly reduced the amount of income he needed to take from his investment assets.

Alex retires from the corporate world

Alex retired happily at age 65. He worked with his adviser to determine how to secure the income that he would need throughout retirement. He had a deferred compensation plan with his company that provided funds for the first few years of his retirement, allowing him to delay claiming social security or drawing from his qualified funds.

When earned income came to an end, Anna, Brian, and Alex worked with their advisers to determine how to secure the income that they would need throughout retirement. They evaluated all of their various types of assets and investment accounts.

Their adviser helped them plan the most tax-efficient way to draw income from their investments and analyzed how much spending their nest egg (plus Social Security) could reasonably support. Each client worked with their adviser to monitor and adjust the risk profile of their investments, reflecting their reduced tolerance for large swings in market value.

Anna, Brian, and Alex all love retirement. They agree that the careful planning they started back in their twenties has afforded them much peace of mind in their sixties. It has taken time and discipline to make the best decisions, but now they are confident that they will live comfortably for a long time.

Transitioning from earning income to drawing down assets, and from long workdays to flexibility and free time, is an exciting but sometimes unsettling time. A financial adviser can help you understand the many issues and opportunities that lay ahead, and how to manage them for success. More confidence in your financial position leads to greater enjoyment of your days.

Challenges and opportunities

- Ongoing monitoring of investment portfolio
- Thinking ahead for the time when you may need help with financial or other decisions
- Estate planning to meet personal objectives and reduce tax burden
- Providing financial support for your children and grandchildren, including help with their education.
- Charitable giving

Solutions

- Consult with your adviser about managing your portfolio to generate income and withstand market fluctuations
- Determine the most tax-efficient way to draw down assets and take social security
- Reevaluate your insurance coverage
- Create a financial caretaking plan and a proactive aging plan to be sure that your children know how you wish to live and be cared for in the case of incompetency
- Update your estate plan
- Consider tax-efficient gifting strategies to your children and grandchildren

This case study is for informational purposes and is not intended to provide any specific recommendation or act as a guide to investing or financial planning. Appropriate strategies depend upon the individual's objectives. Prior to making any investment decisions, it is the responsibility of individuals to review and investigate any potential legal or tax consequences. This case study does not constitute a solicitation in any jurisdiction in which such a solicitation is unlawful or to any person to whom it is unlawful. Moreover, this case study neither constitutes an offer to enter into an investment agreement with the recipient of this document nor an invitation to respond to the document by making an offer to enter into an investment agreement. Together Planning is a division of Mallini Complete Financial Planning, LLC, a Registered Investment Adviser. Registration as an investment adviser does not constitute an endorsement of the firm by securities regulators. Please visit our website togetherplanning.com.

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